

IRS News Release

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IRS Reminds Taxpayers to Take Advantage of Recovery Act Benefits

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WASHINGTON — With 2009 now half over, the Internal Revenue Service reminds taxpayers to take advantage of the numerous tax breaks made available earlier this year in the American Recovery and Reinvestment Act (ARRA).

The recovery law provides tax incentives for first-time homebuyers, people purchasing new cars, those interested in making their homes more energy efficient and parents and students paying for college. But all of these incentives have expiration dates so taxpayers should take advantage of them while they can.

First-Time Homebuyer Credit

The Recovery Act [extended and expanded the first-time homebuyer tax credit](#) for 2009.

Taxpayers who didn't own a principal residence during the past three years and purchase a home this year before Dec. 1 can receive a credit of up to \$8,000 on either an original or amended 2008 tax return, or a 2009 return. But the purchase must close before Dec. 1, 2009, and an eligible taxpayer cannot claim the credit until after the closing date. This credit phases out at higher income levels, and different rules apply to home purchases made in 2008.

New Vehicle Purchase Incentive

ARRA also provides a [tax break to taxpayers who make qualified new vehicle purchases](#) after Feb. 16, 2009, and before Jan. 1, 2010.

Qualifying taxpayers can deduct the state and local sales and excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles. There is no limit on the number of vehicles that may be purchased, and you may claim the deduction for taxes paid on multiple purchases. But the deduction per vehicle is limited to the tax on up to \$49,500 of the purchase price of each qualifying vehicle and phases out for taxpayers at higher income levels. This deduction is available regardless of whether a taxpayer itemizes deductions on Schedule A.

Energy-Efficient Home Improvements

The Recovery Act also encourages homeowners to make their homes more energy efficient. The credit for nonbusiness energy property is increased for homeowners who make qualified energy-efficient improvements to existing homes. The law increases the

rate to 30 percent of the cost of all qualifying improvements and raises the maximum credit limit to a total of \$1,500 for improvements placed in service in 2009 and 2010.

Qualifying improvements include the addition of insulation, energy-efficient exterior windows and energy-efficient heating and air conditioning systems.

Tax Credit for First Four Years of College

The American opportunity credit is designed to help parents and students pay part of the cost of the first four years of college. The new credit modifies the existing Hope credit for tax years 2009 and 2010, making it available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. Tuition, related fees, books and other required course materials generally qualify. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student.

Certain Computer Technology Purchases Allowed for 529 Plans

ARRA adds computer technology to the list of college expenses (tuition, books, etc.) that can be paid for by a qualified tuition program (QTP), commonly referred to as a 529 plan. For 2009 and 2010, the law expands the definition of qualified higher education expenses to include expenses for computer technology and equipment or Internet access and related services to be used by the designated beneficiary of the QTP while enrolled at an eligible educational institution. Software designed for sports, games or hobbies does not qualify, unless it is predominantly educational in nature.

Making Work Pay and Withholding

The Making Work Pay Credit lowered tax withholding rates this year for 120 million American households. However, particular taxpayers who fall into any of the following groups should review their tax withholding rates to ensure enough tax is withheld, including multiple job holders, families in which both spouses work, workers who can be claimed as dependents by other taxpayers and pensioners. Failure to adjust your withholding could result in potentially smaller refunds or in limited instances may cause you to owe tax rather than receive a refund next year. So far in 2009, the average refund amount is \$2,675, and 79 percent of all returns received a refund.

Related Information

For more on the Recovery provisions that may apply to individual taxpayers see the [ARRA page](#) on IRS.gov.

Audio Files for Podcast

Tax Breaks for 2009 & 2010: In [English](#) and in [Spanish](#)

Videos

[First-Time Home Buyer Tax Credit](#)

[Home Energy Credit](#)

[Education Credits - Parents](#)

[Making Work Pay Credit](#)

[Unemployment Compensation](#)